

**SENATE FISCAL AGENCY
MEMORANDUM**

DATE: December 19, 2003

TO: Members of the Senate

FROM: Gary S. Olson, Director

RE: Proposal to Balance FY 2003-04 Budget

After several weeks of discussions among the Governor's Office, the House of Representatives and the Senate, the Legislature has approved a comprehensive plan to balance the FY 2003-04 General Fund/General Purpose (GF/GP) and School Aid Fund budgets. This proposal would eliminate currently projected deficits in the GF/GP and School Aid Fund budgets and provide for future statutory changes in the base of the Single Business Tax. The proposal includes appropriation reductions, appropriation increases, revenue adjustments and other changes that will impact on the final level of GF/GP and School Aid Fund appropriations.

FY 2003-04 GF/GP Budget Proposal

Table 1 provides a summary of the proposal to bring the FY 2003-04 GF/GP budget into balance. Based on a comparison of current estimated revenues and enacted appropriations a \$383.1 million deficit exists in the GF/GP budget. This deficit would be eliminated by utilizing a combination of revenue adjustments, supplemental appropriations, the approval of Executive Order 2003-23 and other adjustments. If all of these changes are enacted into law, the FY 2003-04 GF/GP budget will close the year with a \$15.4 million surplus.

In terms of FY 2003-04 GF/GP revenue adjustments, the proposal includes \$49.0 million of new GF/GP revenues assumed from the increased funding for the enforcement of delinquent tax collection efforts in the Department of Treasury. The supplemental appropriation bill, House Bill 4367 includes \$8.1 million and 83.0 FTEs of appropriation authorization for the Department of Treasury to expand the enforcement of State tax collections. The second revenue adjustment is \$76.7 million from a proposal to pause the scheduled 0.1 percentage point rate reduction in the income tax from January 1, 2004 until July 1, 2004. This statutory change was implemented in Senate Bill 852. The revenue generated from this income tax rate pause would be used to reduce the GF/GP deficit and to provide a \$45.6 million increase in the GF/GP grant to the School Aid Fund. The third revenue adjustment involves the earmarking of \$2.6 million in revenue generated from legislation increasing payments from cigarette manufacturers to the GF/GP budget. This revenue is received from cigarette manufacturers who did not participate in the 1999 agreement between states and major cigarette manufacturers. The final GF/GP revenue item is \$15.0 million of increased revenues from proposed statutory changes in the escheats laws.

The FY 2003-04 budget plan also includes the enactment of House Bill 4367 which will make adjustments to FY 2003-04 appropriations. Included in this bill will be a \$100.0 million GF/GP supplemental appropriation to offset agreed upon shortfalls in the State Medicaid program. The bill also includes the funding for increased tax enforcement in the Department of Treasury and a GF/GP appropriation for the revenue sharing program to restore the 5.0% reduction in revenue sharing payments for cities that are being operated by a State-appointed financial manager (Flint, Hamtramck, and Highland Park). The bill also reduces appropriations to the Legislature and the Judiciary in amounts that correspond to administrative reductions in other State departments included in Executive Order 2003-23. Other appropriation increases in the bill include funding for the Attorney General's office to investigate allegations of wrong doing at certain intermediate school districts, administrative funding for

the Secretary of State to implement the driver responsibility legislation and Military Affairs funding to provide for transportation for Michigan National Guard troopers, stationed outside of the State, to return home for the holidays.

Table 1

FY 2003-04 General Fund/General Purpose Budget Balancing Proposal (millions of dollars)	
Current Estimated Consensus Revenues	\$8,503.2
Enacted Appropriations	8,886.8
Current Estimated Budget Deficit	\$ (383.6)
Proposal to Balance Budget	
<u>Revenue Adjustments:</u>	
Increase Tax Collection Enforcement	49.0
Pause Income Tax Rate Reduction until July 1, 2004	76.7
Nonparticipating Cigarette Manufacturer Bills	2.6
Escheats Law Change	15.0
Subtotal Revenue Adjustments	\$143.3
<u>Supplemental Appropriations:</u>	
Medicaid Funding Shortfall	(100.0)
Corrections Budgetary Savings	14.9
Family Independence Agency Budgetary Savings	0.5
Community Health Budgetary Savings	0.5
Corrections Education Programs	2.0
Treasury Enhanced Tax Enforcement	(2.7)
Treasury Revenue Sharing Grants	(1.5)
Attorney General Operations	(0.7)
Legislative Reduction	1.2
Judiciary Reduction	1.1
State Driver Responsibility Implementation	(0.3)
Consumer and Industry Services Fund Shift	3.0
Military Affairs National Guard Funding	(0.1)
Increase GF/GP Grant to School Aid Fund	(45.6)
Subtotal Supplemental Appropriations	\$(127.7)
<u>Executive Order 2003-23</u>	
GF/GP Appropriation Reductions	200.9
Federal/Restricted Revenue Reductions Impacting on GF/GP	141.9
Work Project Reductions	31.0
Subtotal Executive Order 2003-23	373.8
<u>Balance Sheet Adjustments:</u>	
Information Technology Encumbrance Cancellations	4.5
Teacher Certification Fee Revenue to GF/GP	1.0
Lapse Prior Year Airport Improvement Funds to GF/GP	4.1
Subtotal Balance Sheet Adjustments	9.6
Total Adjustments	\$399.0
Projected Year-End Balance	\$ 15.4

Other appropriation reductions in the bill, include administrative reductions in the Departments of Corrections, Community Health and Family Independence Agency and a fund shift in the Department of Consumer and Industry Services. The final supplemental appropriation item is a \$45.6 million GF/GP grant to the School Aid Fund; more details on the School Aid Fund are provided in the discussion of the School Aid Fund budget proposal below.

Executive Order 2003-23 was presented by the Governor to a joint meeting of the House and Senate Appropriation Committees on December 10, 2003. The Executive Order was approved on December 10, 2003. The Executive Order will result in overall GF/GP appropriation reductions of \$373.8 million. Included in this amount are actual GF/GP appropriation reductions, the reductions of Federal and or State Restricted appropriations that will result in GF/GP savings and GF/GP savings from the termination of previously authorized work projects. The major appropriation reductions in Executive Order 2003-23 include a 5.0% reduction in appropriations to universities, community colleges and revenue sharing payments to cities, villages, townships and counties. Other major appropriation reductions in Executive Order 2003-23 include savings from the refinancing of State debt, administrative reductions for State departments and the reduction of several existing GF/GP appropriations that will be offset by the appropriation of additional Federal or State Restricted funds in the supplemental appropriation bill.

The final items that will be utilized to balance the FY 2003-04 GF/GP budget are the cancellation of several previously authorized information technology projects by the Department of Information Technology, the transferring of surplus teacher certification fee revenues to the GF/GP budget, and the lapse of several prior appropriations for airport improvement projects.

FY 2003-04 School Aid Fund Budget Proposal

Table 2 provides a summary of the proposal to bring the FY 2003-04 School Aid Fund budget into balance. Based on a comparison of current estimated School Aid Fund revenues and enacted appropriations, a \$349.6 million deficit exists in the School Aid Fund budget. This deficit will be eliminated by utilizing a combination of revenue adjustments, appropriation increases, appropriation decreases and projected appropriation lapses.

In terms of FY 2003-04 School Aid Fund revenue adjustments, the proposal contains a series of revenue adjustments that would reduce the projected School Aid Fund deficit. These revenue adjustments include \$45.6 million of GF/GP revenues generated from the six-month pause in the scheduled income tax rate reduction. Additional FY 2003-04 School Aid Fund revenues of \$59.7 million will occur as a result of a higher School Aid Fund balance carried forward from FY 2002-03. Other revenue adjustments include a \$10.0 million revenue increase from a revised estimate of revenues to be generated from new lottery games, \$28.6 million from additional revenues generated through the increased enforcement of delinquent tax collections by the Department of Treasury and \$20.0 million from a proposed amnesty program for delinquent personal property taxpayers. The proposal also includes a \$11.5 million reduction in the amount of revenues expected to be collected from increased local assessor enforcement of personal property tax laws.

The adjustments to School Aid Fund appropriations include a \$4.7 million appropriation increase to fully fund the State reimbursement of revenues foregone from renaissance zone property tax relief. Appropriation reductions include a \$2.0 million reduction in career preparation funding and an assumed \$22.0 million lapse in the Freedom to Learn program. This lapse is expected to occur as a result of a limited number of school districts willing to participate in the laptop computer program for 6th graders.

The combination of these School Aid Fund revenue adjustments and the appropriation changes will result in a projected \$177.9 million FY 2003-04 School Aid Fund deficit. This deficit would be

eliminated by a \$100 per pupil reduction in the State aid payments to all students in local school districts and public school academies. This proration would be provided under existing provisions of the State School Aid Act.

Table 2 FY 2003-04 School Aid Fund Budget Budget Balancing Proposal (dollars in millions)	
Current Estimated Consensus Revenues	\$12,209.8
Enacted Appropriations	12,559.4
Current Estimated Budget Deficit	(349.6)
<u>Proposal to Balance Budget</u>	
<u>Revenue Adjustments:</u>	
Income Tax Pause Revenue to School Aid Fund	45.6
Higher Carry-Forward Balance from FY 2002-03	59.7
Reduce Estimated Revenue from Personal Property Tax Audits	(11.5)
Increase Estimate of Lottery Quick Keno and Breakopen Games	10.0
Personal Property Tax Amnesty Program	20.0
Increase Tax Collection Enforcement	28.6
Subtotal Revenue Adjustments	\$152.4
<u>Appropriation Increases:</u>	
Renaissance Zone Reimbursements	(4.7)
<u>Appropriation Reductions:</u>	
Eliminate PAL and Career Preparation Funding	2.0
<u>Projected Appropriation Lapses:</u>	
Freedom to Learn Program	22.0
Total Adjustments	\$171.7
Projected Year-End Balance	\$(177.9)
Eliminate Remaining Deficit with \$100 Per Pupil Proration	

Single Business Tax Base Changes

Included in the overall budget agreement is a reduction in the base of the single business tax. One of the key components of the base of the single business tax is the total compensation businesses pay to their employees, which includes the amount spent on health care-related benefits. Under the budget agreement, beginning in 2004, the amount of health care-related costs included in the tax base will be reduced. In 2004, businesses will be able to deduct 5% of their health care-related costs, and then the deduction increases to 20% in 2005, 40% in 2006, and 50% in 2007 and each year thereafter. It is estimated this change will reduce single business tax revenue \$2.3 million in FY 2003-04, \$9.8 million in FY 2004-05, \$22.0 million in FY 2005-06, and \$28.5 million in FY 2006-07.

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